

# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

## Legislative Actuarial Note

### HEALTH BENEFITS

**BILL NUMBER:** House Bill 498 (First Edition)

**SHORT TITLE:** Mandate Autism Health Insurance Coverage.

**SPONSOR(S):** Representatives McGrady, Murry, Cotham, and Shepard

**SYSTEM OR PROGRAM AFFECTED:** State Health Plan for Teachers and State Employees (Plan).

**FUNDS AFFECTED:** State General Fund, State Highway Fund, other State employer receipts; premium payments for dependents of active employees and retired employees of State agencies and universities, local public schools and local community colleges; premium payments for coverages selected by eligible former employees; premium payments for coverages selected by firefighters, rescue squad workers, members of the National Guard, and certain authorized local governments.

#### **BILL SUMMARY:**

House Bill 498 (First Edition) proposes to mandate coverage for the screening, diagnosis, and treatment of autism spectrum disorder by specified health benefit plans. The coverage must not be subject to any limits on the number of visits and coverage cannot be denied on the basis that the treatments are educational or habilitative. Coverage cannot be subject to out-of-pocket provisions less favorable than those applied to substantially all other medical services. However, coverage for behavioral health treatments may be subject to a maximum benefit of \$75,000 per year (indexed).

The bill specifies that the mandate does not apply to qualified health plans offered on a health benefit exchange established under the federal Affordable Care Act, to the extent that the benefits mandated exceed “essential health benefits”.

Section 3 of the bill amends G.S. 135-48.51 to specify that the mandate applies to the State Health Plan. The Plan currently covers medical costs related to autism spectrum disorder, but does not cover behavioral therapies. The bill would require the Plan to cover behavioral therapies as well.

**EFFECTIVE DATE:** This bill becomes effective on October 1, 2013 and applies to insurance contracts issued, renewed, or amended on or after that date. This analysis assumes that treatments provided on or after October 1, 2013 would be covered by the Plan.

#### **ESTIMATED IMPACT ON STATE:**

The Segal Company, the consulting actuary for the State Health Plan for Teachers and State Employees, estimates that the proposed bill's requirements will increase the Plan's paid claims costs by \$2.4 million in FY 2013-14 and \$4.3 million in FY 2014-15.

Hartman & Associates, the consulting actuary for the General Assembly's Fiscal Research Division, estimates that the proposed bill's requirements will increase the Plan's paid claims cost by \$0.9 to \$2.1 million in FY 2013-14 and \$3.2 to \$7.6 million in FY 2014-15. Hartman & Associates estimates that the long-term impact to the Plan after five or six years is \$7.9 to \$18.9 million per year.

**ASSUMPTIONS AND METHODOLOGY:** The actuarial analyses used by each respective consulting actuary are on file with the Fiscal Research Division. Copies of each respective consulting actuary's analysis, including assumptions, are also attached to the original copy of this Legislative Actuarial note.

Very little mature insured data exists for developing credible cost estimates for Applied Behavioral Analysis (ABA). Therefore, the consulting actuaries incorporated a variety of considerations into their estimates, including the following:

- Only a portion of those diagnosed with autism spectrum disorder will benefit from and take advantage of ABA.
- Many patients who start an ABA program will cease that program at some point due to entering school, the fact that most programs focus on younger children, or the large commitment required by patients and parents in most programs.
- A portion of costs would be paid by Plan members in the form of co-payments, deductibles, and co-insurance under current Plan rules.
- Claims are expected to take five or six years to reach a stable long-term level due to lags in accessing new benefits and the limited supply of ABA providers.
- Risk margins due to both general uncertainty about claims and a risk that affected employees will choose to add their children to the Plan if the Plan covers ABA while health plans offered on the federal exchange and employer plans exempt from State regulation do not.

The consulting actuaries also used a variety of data sources:

- Claims experience from health plans in other states during the first or second year that mandates applied in those states.
- Claims experience from Minnesota, where Blue Cross Blue Shield has provided coverage since 2001.
- Report from Oliver Wyman in March 2012 on long-term cost estimates for ABA.
- Discussions with ABA providers about typical rates and annual program hours.
- Benefit materials from one large self-insured employer that offers ABA benefits.
- Prevalence data from the Centers for Disease Control.
- Data from a pilot program in the South Carolina Department of Disabilities and Special Needs.
- Data from the Plan on the number of current members diagnosed with autism spectrum disorder by age, showing 619 members under age 21 with paid claims through March Fiscal Year 2013.

### **Summary Information and Data about the Plan**

The Plan administers health benefit coverage for active employees from employing units of State agencies and departments, universities, local public schools, and local community colleges. Eligible retired employees of authorized employing units may also access health benefit coverage under the Plan. Eligible dependents of active and retired employees are authorized to participate in the Plan provided they meet certain requirements. Employees and retired employees of selected local governments may also participate in the Plan under certain conditions. Members of fire, rescue squads, and the National Guard may also obtain coverage under the Plan provided they meet certain eligibility criteria.

The State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement. The Plan's receipts are derived through premium contributions, investment earnings and other receipts. Premiums for health benefit coverage are paid by (1) employing agencies for active employees, (2) the Retiree Health Benefit Fund for retired employees, and (3) employees and retirees who participate in the Standard plan or who elect dependent coverage. Total

requirements for the Plan are estimated to be \$3.05 billion for FY 2013-14 and \$3.30 billion for FY 2014-15. The Plan's PPO benefit design includes two alternative benefit levels listed below:

- 1) The "Basic" 70/30 plan that offers higher out-of pocket requirements in return for lower premiums from employees and retirees; and
- 2) The "Standard" 80/20 plan.

The Basic plan offers coverage to employees and retired employees on a noncontributory basis. The Standard plan offers coverage to employees and retired employees on a partially contributory basis. Coverage for dependents under both plans is offered on a fully contributory basis.

The following table provides a summary of most monthly premium rates for the Plan in FY 2012-13:

<u>Coverage Type</u>	PPO Basic		PPO Standard	
	Employee/ Retiree	Employer	Employee/ Retiree	Employer
Non-Medicare Active Employee/Retiree				
Employee	\$0.00	\$432.66	\$22.76	\$432.66
Employee + Child(ren)	\$198.06	\$432.66	\$286.16	\$432.66
Employee + Spouse	\$510.32	\$432.66	\$629.64	\$432.66
Employee + Family	\$543.54	\$432.66	\$666.18	\$432.66
Medicare Primary for Only Employee/Retiree				
Employee	\$0.00	\$336.25	\$10.52	\$336.25
Employee + Child(ren)	\$198.06	\$336.25	\$273.92	\$336.25
Employee + Spouse	\$510.32	\$336.25	\$617.40	\$336.25
Employee + Family	\$543.54	\$336.25	\$653.94	\$336.25

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2012-13, employers contribute 5.3% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$828 million.

### **Financial Condition**

**Current and Projected Results for 2011-13 Biennium** – The following summarizes actual financial results for FY 2011-12 and projected financial results for FY 2012-13, based on financial experience through December, 2012. It reflects the adoption of an Employer Group Waiver Plan (EGWP) for Medicare-eligible retirees effective January 1, 2013.

	(\$ millions)	
	Actual FY 2011-12	Projected FY 2012-13
Beginning Cash Balance	\$269.9	\$502.2
Receipts:		
Net Premium Collections	\$2,749.9	\$2,884.6
Early Retiree Reinsurance Program	\$42.2	(\$0.6)
Medicare Part D / EGWP Subsidies	\$57.6	\$59.9
Investment Earnings	\$3.0	\$2.8

Total	\$2,852.7	\$2,946.8
Disbursements:		
Net Medical Claim Payment Expenses	\$1,826.8	\$1,899.2
Net Pharmacy Claim Payment Expenses	\$628.0	\$679.8
Administration and Claims-Processing Expenses	\$165.5	\$170.4
Total	\$2,620.3	\$2,749.4
Net Operating Income (Loss)	\$232.4	\$197.3

**Financial Projection 2013-15 Biennium** – The following summarizes a financial projection conducted by the Plan’s consulting actuary, The Segal Company, for the 2013-15 biennium. The information is provided by fiscal year based on year-to-date financial experience (through December 2012) and other updated factors. The projection assumes an 8.5% annual claims growth trend, that benefit provisions remain the same, and that both employer and member-paid premiums are kept constant over the biennium.

	(\$ millions)	
	Projected FY 2013-14	Projected FY 2014-15
Beginning Cash Balance	\$699.6	\$608.2
Receipts:		
Net Premium Collections	\$2,877.7	\$2,865.8
Early Retiree Reinsurance Program	\$0.0	\$0.0
Medicare Part D / EGWP Subsidies	\$82.9	\$102.5
Investment Earnings	\$2.7	\$2.0
Total	\$2,963.3	\$2,970.2
Disbursements:		
Net Medical Claim Payment Expenses	\$2,118.3	\$2,248.6
Net Pharmacy Claim Payment Expenses	\$753.9	\$824.8
Administration and Claims-Processing Expenses	\$182.4	\$223.9
Total	\$3,054.7	\$3,297.2
Net Operating Income (Loss)	(\$91.4)	(\$327.0)

**Other Information**

Additional assumptions include Medicare benefit “carve-outs,” cost containment strategies including prior approval for certain medical services, utilization of the "Blue Options" provider network, case and disease management for selected medical conditions, mental health case management, coordination of benefits with other payers, a prescription drug benefit manager with manufacturer rebates from formularies, fraud detection, and other authorized actions by the State Treasurer, Executive Administrator, and Board of Trustees to manage the Plan to maintain and improve the Plan's operation and financial condition where possible. Claim cost trends are expected to increase at a rate of 8.5% annually according to the Plan’s consulting actuary. Investment earnings are based upon a 0.4% return on available cash balances. The active population is projected to decline by 1% per year, the COBRA population is projected to remain constant, and the retired population is projected to increase by 1% per year.

**Enrollment as of December 31, 2012**

<b>I. No. of Participants</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>	<b>Percent of Total</b>
<u>Actives</u>				
Employees	126,974	187,018	313,992	46.9%
Dependents	<u>72,615</u>	<u>84,298</u>	<u>156,913</u>	<u>23.5%</u>
Sub-total	199,589	271,316	470,905	70.4%
<u>Retired</u>				
Employees	29,014	145,419	174,433	26.1%
Dependents	<u>5,602</u>	<u>13,160</u>	<u>18,762</u>	<u>2.8%</u>
Sub-total	34,616	158,579	193,195	28.9%
<u>Former Employees with Continuation Coverage</u>				
Employees	555	911	1,466	0.2%
Dependents	<u>254</u>	<u>338</u>	<u>592</u>	<u>0.1%</u>
Sub-total	809	1,249	2,058	0.3%
<u>Firefighters, Rescue Squad &amp; National Guard</u>				
Employees	3	5	8	0.0%
Dependents	<u>3</u>	<u>1</u>	<u>4</u>	<u>0.0%</u>
Sub-total	6	6	12	0.0%
<u>Local Governments</u>				
Employees	544	1,342	1,886	0.3%
Dependents	<u>442</u>	<u>509</u>	<u>951</u>	<u>0.1%</u>
Sub-total	986	1,851	2,837	0.4%
<u>Total</u>				
Employees	157,090	334,695	491,785	73.5%
Dependents	78,916	98,306	177,222	26.5%
<b>Grand Total</b>	<b>236,006</b>	<b>433,001</b>	<b>669,007</b>	<b>100%</b>
<b>Percent of Total</b>	<b>35.3%</b>	<b>64.7%</b>	<b>100.0%</b>	
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<b>II. Enrollment by Contract</b>				
	<b>Basic</b>	<b>Standard</b>	<b>Total</b>	
Employee Only	117,228	280,916	398,144	
Employee Child(ren)	23,480	29,181	52,661	
Employee Spouse	6,155	13,499	19,654	
Employee Family	10,227	11,099	21,326	
<b>Total</b>	<b>157,090</b>	<b>334,695</b>	<b>491,785</b>	
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<b>Percent Enrollment by Contract</b>				
	<b>Basic</b>	<b>Standard</b>	<b>Total</b>	
Employee Only	74.6%	83.9%	81.0%	
Employee Child(ren)	14.9%	8.7%	10.7%	
Employee Spouse	3.9%	4.0%	4.0%	
Employee Family	6.5%	3.3%	4.3%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	

<b>III. Enrollment by Sex</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
Female	137,067	281,337	418,404
Male	98,939	151,664	250,603
<b>Total</b>	<b>236,006</b>	<b>433,001</b>	<b>669,007</b>

  

<b>Percent Enrollment by Sex</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
Female	58.1%	65.0%	62.5%
Male	41.9%	35.0%	37.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

  

<b>IV. Enrollment by Age</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
19 & Under	50,510	57,419	107,929
20 to 29	30,459	34,693	65,152
30 to 44	55,932	69,280	125,212
45 to 54	43,808	63,317	107,125
55 to 64	43,577	90,285	133,862
65 & Over	11,720	118,007	129,727
<b>Total</b>	<b>236,006</b>	<b>433,001</b>	<b>669,007</b>

  

<b>Percent Enrollment by Age</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
19 & Under	21.4%	13.3%	16.1%
20 to 29	12.9%	8.0%	9.7%
30 to 44	23.7%	16.0%	18.7%
45 to 54	18.6%	14.6%	16.0%
55 to 64	18.5%	20.9%	20.0%
65 & Over	5.0%	27.3%	19.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

  

<b>V. Retiree Enrollment by Category</b>	<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible	53,656	11,878	65,534
Medicare Eligible	120,777	6,884	127,661
<b>Total</b>	<b>174,433</b>	<b>18,762</b>	193,195

  

<b>Percent Enrollment by Category (Retiree)</b>	<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible	30.8%	63.3%	33.9%
Medicare Eligible	69.2%	36.7%	66.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	100.0%

<b>VI. Enrollment By Major Employer Groups</b>	<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies	72,946	33,507	106,453
UNC System	50,104	30,627	80,731
Local Public Schools	172,563	83,045	255,608
Charter Schools	2,765	1,583	4,348
Local Community Colleges	15,614	8,151	23,765
Other			
Local Governments	1,886	951	2,837
COBRA	1,466	592	2,058
Nat. Guard, Fire & Rescue	8	4	12
Sub-total	317,352	158,460	475,812
Retirement System	174,433	18,762	193,195
<b>Total</b>	<b>491,785</b>	<b>177,222</b>	<b>669,007</b>
<b>Percent Enrollment by Major Employer Groups</b>	<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies	14.8%	18.9%	15.9%
UNC System	10.2%	17.3%	12.1%
Local Public Schools	35.1%	46.9%	38.2%
Charter Schools	0.6%	0.9%	0.6%
Local Community Colleges	3.2%	4.6%	3.6%
Other			
Local Governments	0.4%	0.5%	0.4%
COBRA	0.3%	0.3%	0.3%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	64.5%	89.4%	71.1%
Retirement System	35.5%	10.6%	28.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**SOURCES OF DATA:**

The Segal Company; North Carolina State Health Plan; Financial Projections – Dec 2012; Trends – 8.5% Medical & Pharmacy; With Dental, MHSA and ACA Reinsurance Fee. March 12, 2013. Filename “NCSHP Q2 Update – Baseline Updated 031213 – V2.pdf”

-Actuarial Note, Hartman & Associates, House Bill 498, “House Bill 498: An Act to Require Health Benefit Plans, Including the State Health Plan for Teachers and State Employees, to Provide Coverage for Treatment of Autism Spectrum Disorders”, May 1, 2013, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, The Segal Company, House Bill 498, “House Bill 498 Mandate Autism Health Insurance Coverage”, April 29, 2013, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly’s Fiscal Research Division.

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